



United States  
Department of  
Agriculture

Foreign  
Agricultural  
Service

# Tropical Products: World Markets and Trade

## World Sugar Situation – May 2008

### Overview

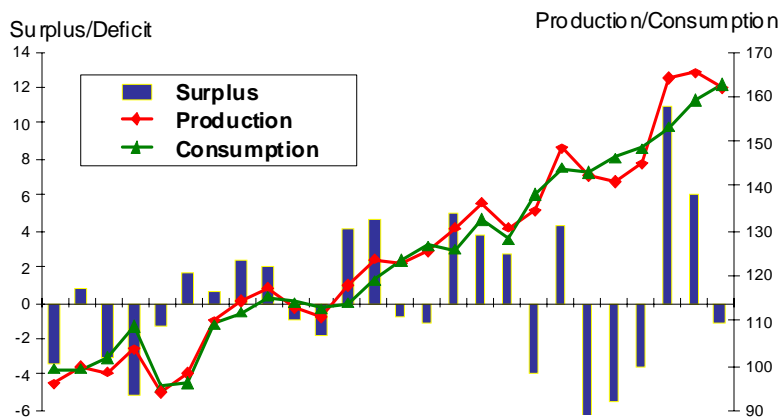
World sugar production for the 2008/09 marketing year is forecast at 161.7 million tons, raw value, down 3.8 million tons from the revised 2007/08 estimate. Consumption is forecast at 160.8 million tons, up 4.6 million tons from a year earlier. Exports are forecast at 51 million tons, up 733 thousand tons; and ending stocks are forecast at 41.3 million tons, down 3.5 million tons.

Forecast changes in 2008/09 world production and trade are highlighted by a higher production in Brazil, at 33.7 million tons, up 1.6 million tons. Brazil accounts for 20 percent of world production but Asia accounts for nearly 40 percent. Forecast production in Asia is down by 5 million tons to total 63.1 million tons. Production in India for 2008/09 is forecast at 24.8 million tons, down 4.1 million tons, China at 14.4 million tons, down 150,000 tons, and Thailand at 7.2 million tons, down 450,000 tons. Production in the EU is forecast to decline by 926,000 tons. In 2008/09 the EU is forecast to be a net sugar importer of 2 million tons. Exports from Brazil for 2008/09 are forecast at 21.6 million tons, up 1.8 million tons from 2007/08. Brazilian exports during the last year were off from expected levels due to relatively low prices in relation to production costs (a consequence of dollar devaluation), high freight rates, competition from India in near east markets, high oil prices and high domestic ethanol demand. Thailand is forecast to export 5.6 million tons, up 500,000 tons from the previous year, and India may export 1.3 million tons, a decline of 2.4 million tons from last year. Exports from Australia are forecast at 3.9 million tons up of 100,000 tons.

Compared to the November 2007 estimate, world sugar production for the 2007/08 marketing year is estimated at 165.4 million tons, raw value, down 1.7 million tons; consumption is estimated at 156.3 million tons, up 1.3 million tons; exports are estimated at 50.2 million tons, down 593 million tons; and ending stocks are placed at 44.9 million tons, down 1.7 million tons.

World sugar raw prices dramatically increased during the last six months reaching over 15 cents/lb in March before declining to present levels of under 11 cents/lb.

## World Sugar Balance 1983/84 – 2008/09 in Millions of Tons



Adjusted for net trade and unrecorded imports  
Source: FAS USDA

Prices rose steeply, in early 2008, despite evidence of unusual surplus production. In March it appeared that managed investments controlled the market rather than existing fundamentals. This situation appears to have eased in early April when the Federal Reserve Board declined to lower the overnight loan rate by as much as the market expected.

The steep devaluation of the US dollar over the last

six months appreciated the cost of sugar in major producer countries as well as the price to importers. However for a while the costs of production were higher than the world price. At that point sugar became attractive to index funds and spectators. Sugar followed the trend as other commodity markets began to rise. The pattern was reinforced by high energy prices, inflation fears and a deteriorating outlook for equities and bonds.

As the chart shows, the USDA is forecasting a negative supply balance of 1.1 million tons for the 2008/09 marketing year. Nevertheless ending stocks do not appear to be overly tight. Much will depend on the overall economic situation as well future production.

## Highlights of the Major Producers

Brazil, India, Thailand, and China account for 50 percent of world production and 56 percent of world exports.

### Brazil

Brazil's total 2008/09 (May-April) sugarcane production is projected at 550 million tons, up 12 percent relative to 2007/08 (491.1 million tons). This increase is a consequence of continued area expansion in the Center-South region (CS). Indeed, approximately 30 new mills should start operations this season in addition to extra area added at existing mills. The CS region should grow 490 million tons of sugarcane, up 14 percent compared to the previous crop. North-Northeastern (NNE) production is forecast at 60 million tons similar to the 2007/08 crop.

In spite of the strong demand for ethanol, the beginning of the harvest in mid-March in Parana and in April in Sao Paulo and other CS states will likely prevent any shortage of the product.

Total sugarcane area for 2008/09 is projected at 8.1 million hectare (ha), a 12 percent increase vis-à-vis 2007/08 (7.2 million ha). Total area harvested for 2008/09 is forecast at 7.4 million ha, up 900,000 ha from 2007/08 (6.5 million ha).

The agricultural yield for 2008/09 is forecast at 74.3 metric tons (mt) per ha, down 2 percent from previous crop (75.6 mt/ha), due to weather related problems in the states of Sao Paulo, Parana, and Minas Gerais. The industrial yield is projected at 143.13 kg TRS (total reducing sugars)/mt, similar to last season (143.6 kg TRS/mt). According to UNICA, the average industrial yield for the 2007/08 crop in the CS is 144.7 kg TRS/mt, down 2.2 kg TRS/mt relative to 2006/07.

Total Brazilian sugarcane production for marketing year 2007/08 (May-April) has been adjusted to 491.1 million tons, up 3 percent from previous estimate. The Center-South (CS) harvest ended in December 2007 contributing 431.1 million tons. The North-Northeastern (NNE) region's harvest is virtually over should contribute 60 million tons.

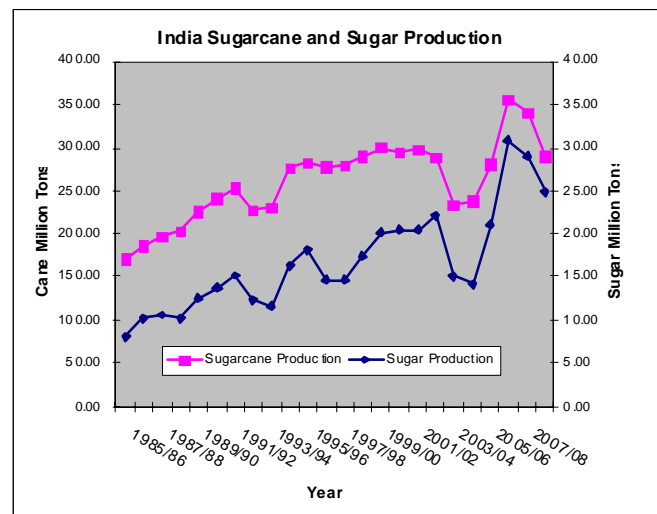
Although sugar prices have rebounded over the past months, the 2008/09 sugarcane crop is expected to continue the trend toward increasing ethanol, as opposed to sugar, production as a consequence of strong demand for ethanol in the domestic market. Indeed, the TRS breakdown for sugar and ethanol production is forecast at 43.5: 56.5 percent, respectively, compared to 45.5: 54.5 percent for 2007/08.

Sugar production for 2008/09 is projected at 33.7 million tons raw value, up 1.6 million tons compared to last year (32.1 million tons). The CS states should account for 29.2 million tons, raw value, up 7 percent from 2007/08 (27.4 million tons). The NNE should contribute 4.5 million tons of sugar, raw value, relatively stable compared to 2007/08 (4.8 million tons).

Total ethanol production for 2008/09 is projected at 25.7 billion liters (8.5 billion liters of anhydrous ethanol and 17.2 billion liters of hydrated ethanol), up 3.3 billion liters from 2007/08 (8.1 billion liters of anhydrous ethanol and 14.3 billion liters of hydrated ethanol).

## India

Sugarcane and sugar production in India typically follows a 6 to 8 year cycle, wherein 3 to 4 years of higher production are followed by 2 to 3 years of lower production. Market sources report that farmers were forced to sell their cane to *Gur<sup>1</sup>* producers at very low prices (Rs. 600-700 per ton vs. Rs. 900-1100 ton last year) during the early part of the season (Oct-Nov). With most of the mills only making partial payment to



the farmers, cane price realizations during the current season has been considerably lower than previous years (2005/06 and 2006/07). With the prices of food grains (wheat, rice, maize, pulses) being relatively strong, planting intentions are not favorable for sugarcane planting vis-à-vis alternative crop rotations of food grains.

Therefore, sugarcane area in 2008/09 is expected to decline to 4.6 million hectares resulting in tight cane supplies in the upcoming season. Consequently, we estimate that 2008/09 centrifugal sugar production will decline further from 28.9 million tons in 2007/08 to 24.8 million tons in 2008/09. A record 30.6 million tons was produced in 2006/07.

Two consecutive years of record sugar production (2005/06 and 2006/07) resulted in abnormally high stocks and low sugar prices, leading to a financial crisis in the sugar industry. This crisis has manifested itself in delays in cane price payments to farmers with the cane arrears ballooning to Rs. 25.5 billion (\$ 638 million) by the end of 2006/07. Although the government has initiated a series of fiscal relief measures they have been inadequate in mitigating the current situation as mills continue to be under pressure to clear the cane price arrears.

India's total centrifugal sugar production in marketing year 2008/09 is forecast at 24.8 million tons (including 435,000 tons of *khandsari* sugar<sup>2</sup>); down 16 percent from 2007/08 estimate on expected tight sugarcane supplies. *Gur* production is forecast lower at 3.3 million tons compared to 4.3 million tons last year. Delayed cane payments to farmers, relatively lower cane prices vis-à-vis last year, and the relatively strong price of competing food crops (rice, wheat, maize, pulses) are expected to lower the cane planting for 2008/09 by 10 percent to 4.6 million hectares. Yields are expected to be lower than last year due to a higher share of return crop. Assuming normal weather, 2008/09 sugar production is forecast lower at 290 million tons (vs. 340 million tons in 2007/08).

Estimated centrifugal sugar production for 2007/08 is revised lower to 28.9 million tons on the lower than anticipated sugarcane crop and increased diversion of cane for production of alternative sweeteners, namely *khandsari* and *gur*. Inadequate monsoon rains in northern states and a lack of winter rains (December/January) in major cane producing states adversely affected crop yields resulting in the lower than anticipated cane production. Due to disputes on cane payment arrears from the previous season and cane pricing for the current season in several states, cane crushing by sugar mills was delayed by 25-30 days starting in late November. During this period, farmers diverted a significant portion of their cane crop to alternative sweeteners to meet their cash requirements and clear their fields for planting wheat (Nov/Dec) due to strong wheat prices. Industry sources expect cane crushing by mills to decline sharply from April onwards due to lack of cane. Cane price payments to farmers have been delayed by 2-3 months against the normal lag period of 2-3 weeks of the cane payment schedule due to the poor financial conditions of mills. Mill crushing is ceased in April, 2-3 weeks earlier than normal, in major sugar producing states.

<sup>1</sup> *Gur*: a crude non-centrifugal sugar in lump form produced by open pan evaporation method.

<sup>2</sup> *Khandsari* sugar: a low recovery centrifugal sugar prepared by open-pan evaporation method.

Consequently, 2007/08 sugar production is revised lower to 28.9 million tons against the earlier estimate of 31.8 million tons. Estimates for 2006/07 sugar and sugarcane production have been revised marginally higher based on final estimates from the Indian Sugar Mills Association and the Ministry of Agriculture, respectively.

## **Thailand**

Sugarcane production for 2008/09 is forecast at 68.0 million tons, down slightly from the previous year in anticipation of acreage reduction. However, the production is still well above the five-year average as acreage reductions will likely be limited to low-yield areas, particularly in the northeast where farmers are expected to shift to tapioca.

Sugarcane production for 2007/08 is revised upward by 930,000 tons, to 7.7 million tons due to improved average yields and favorable weather conditions. The average extraction rate of cane for sugar increased to 106.4 kg/tons of cane, compared to 105.3 kg/tons of cane in the previous year. Supplies of molasses are estimated at 3.2 million tons.

In 2009, sugarcane will go primarily for sugar production as the utilization of sugarcane for ethanol will likely remain limited due to unattractive domestic ethanol prices. Current excess supplies of ethanol will prevent any near-term expansion of sugarcane-based ethanol production. Presently, there are only nine ethanol plants with production capacity of 1.3 million liters/day out of 45 registered ethanol plants (with production capacity of 10.9 million liters/day). These nine plants produce around 60-70 percent of total production and are primarily molasses-based ethanol. Despite most facilities being molasses based, one sugar miller in the northeast utilized 57,345 tons of sugarcane for ethanol production. As of February 2008, overall consumption of ethanol increased to 0.7 million liters/day, compared to an average of around 0.5 million liters/day in 2007.

Sugar production for 2008/09 is forecast to decline to 7.2 million tons, down 450,000 tons from the previous year, in-line with an overall reduction in sugarcane production. Supplies of molasses, a by-product of sugar production, are expected to decline to 2.9 million tons.

## **China**

Overall sugar output for 2008/09 is forecast to reach 14.4 million tons, one percent lower than 2007/08. Cane sugar output for 2008/09 is forecast at 13 million tons, two percent lower than 2007/08. Beet sugar output is forecast at 1.35 million tons in 2007/08 compared to 1.30 million tons in 2007/08. The top five producing provinces are: Guangxi, Yunnan, Guangdong, Hainan, and Xinjiang. Their output is estimated to account for 95 percent of national total sugar output in 2007/08. Sugar production for 2007/08 is estimated at a record 14.5 million tons, five percent higher than the previous estimate due to a record yield and area expansion.

Sugar cane harvested area for 2008/09 is forecast at 1.6 million hectares, two percent higher than 2007/08. Sugar cane area accounted for 84 percent of the total crop area in 2007/08. Guangxi remains the dominant sugar cane producing province, followed by Yunnan, Guangdong, and Hainan provinces. Guangxi's output is estimated to account for 57 percent of China's sugar cane production in 2007/08.

Weather patterns have been favorable for most growth stages in 2007/08, except for a 40-day period of low temperature in January and February 2008. While the low temperatures and freezing rain devastated fruit and vegetable production in some southern provinces, the affect on sugar cane was marginal. During the adverse weather, about half of the cane in Guangxi had already been harvested and only minor production regions in northern and eastern parts of the province were affected. For the affected crop, there was substantial plant recovery due to subsequent warm weather and adequate rainfall.

One remaining uncertainty is that the freezing temperature might have affected the sprouting rate for the new crop in 2008/09. The industry and farmers have not experienced such a prolonged freezing period in the past 50 years so no historic records or research is available for evaluating the situation. Evaluation of the crop of emergence rate will be finalized by May 2008.

Sugar beet area for 2008/09 is forecast at 300,000 hectares, unchanged from the 2007/08. To encourage beet planting, some sugar mills have raised the beet purchase price by 20 percent (to \$40/mt) for 2008/09 at planting season. However, the rising price for competitor crops, such as tomatoes and oilseeds, is making sugar beets less attractive to farmers. Increased prices for agricultural inputs are expected to reduce the profit margin for both beet farmers and mills in 2007/08. To keep sugar beets competitive with other crop, the millers in northern China provinces have repeatedly raised the beet price.

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